

EXHIBIT 2

(Corrected)

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE ALTA MESA RESOURCES,) CASE NO.
INC. SECURITIES LITIGATION) 4:19-cv-00957

REMOTE VIDEOTAPED DEPOSITION OF
EDWARD FETKOVICH
NOVEMBER 1, 2023
9:03 a.m. ET

Witness Appearing From:
Law Offices of Latham & Watkins LLP
555 Eleventh Street, NW
Washington, D.C. 20004

Conducted Remotely Via Videoconference

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1 believe I was officially engaged, as I recall, in
2 November of 2022. That's the best of my
3 recollection.

4 Q. Prior to this engagement, had you heard of
5 Alta Mesa?

6 A. Yes.

7 Q. In what context had you heard of Alta Mesa
8 prior to this engagement?

9 A. Well, as you're aware, I was involved with
10 the STACK development as an employee of Cimarex, and
11 they are just a name, you know, another operator in
12 the STACK. There were numerous operators. They
13 were another operator I was familiar with but did
14 not interact with.

15 Q. Prior to becoming engaged in this matter,
16 did you discuss with anyone the reasonableness of
17 the development of Alta Mesa's STACK acreage?

18 A. I did not.

19 Q. At the time that you were engaged -- take
20 a step back. Were you engaged by Latham & Watkins?

21 A. I was.

22 Q. At the time you were engaged, did you
23 understand that Latham & Watkins were representing
24 some members of Alta Mesa's management?

25 A. At that time it was engaged with

1 Alta Mesa, and I didn't have -- I didn't have
2 necessarily all the details.

3 Q. Well, who did you understand that
4 Latham & Watkins was representing at the time you
5 were engaged?

6 A. Alta Mesa, the entity. That probably
7 shows a little ignorance on my part as just -- that
8 wasn't a question I followed up with. I was more
9 trying to just understand what the -- what the
10 issues were and not necessarily who they were
11 directed against.

12 Q. Who introduced you to Latham & Watkins?

13 A. Mr. Eugene Elrod with Latham & Watkins.
14 He was introduced earlier.

15 Q. At the time you were engaged, did you
16 understand that Latham & Watkins was engaging you in
17 the hope that you would give an opinion or opinions
18 favorable to Alta Mesa?

19 MS. GRAGERT: Objection. That calls for
20 information that's outside the scope of permissible
21 discovery per the parties' executed stipulation.

22 MR. BRODEUR: It's really not. Are you --

23 MS. GRAGERT: Brendan, you're --

24 MR. BRODEUR: -- instructing your witness
25 not to answer?

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1 There were of the 81, roughly -- so this
2 is approximate. About half of those, give or take,
3 were to improve production, and the other half, give
4 or take, were for frac hits. If I subdivide those,
5 it coincidentally turned out that approximately half
6 in each category were involved with being installed
7 in a pattern with multi-wells. The other half were
8 actually installed in wells where they were the only
9 wells in a section.

10 And therefore, those installations were
11 critical because they -- by installing the ESP and
12 restoring the production or improving the
13 production, they protected the rights to the mineral
14 owner. So they protected against drainage, which I
15 thought was important.

16 Q. And did you include that benefit in your
17 economic analysis?

18 A. Didn't. Did not.

19 Q. You talk about the 81 installations.
20 Those are frac hits and what you call improved
21 production. But that does not include any analysis
22 of the installation in new wells, correct?

23 A. That is correct.

24 Q. And you're giving -- you offer no opinion
25 about the economic impact of the installation of

1 those 21 ESPs in new wells. Is that correct?

2 A. That's correct. And the reason why is
3 with the improved production of the frac hits, you
4 had a before and after. You had an artificial lift
5 before and an artificial lift after. Didn't know
6 how to run the economics of the before. And that's
7 the reason why. I mean, you -- there could be lots
8 of questions about assumptions when there wasn't any
9 basis for it. So that's -- that's why I didn't.

10 Q. Well, couldn't you -- couldn't you look
11 at, sort of on an average basis for comparable new
12 wells, develop a type curve for no ESP and a type
13 curve for ESP and get a sense?

14 A. The answer to that is that -- that would
15 create significantly more uncertainty than it
16 creates certainty. There's -- if you look through
17 those production plots, you can see that there's
18 any -- if you look across all the wells, there's
19 quite a variation in the production performance from
20 the vari- -- from all the various wells. I wouldn't
21 know how to do that.

22 Now, an observation was that, in general,
23 the wells that I looked at that had an ESP installed
24 in a new well, in general, those ESPs seemed to
25 outperform the other wells.

1 So I am not sure how -- I -- there was a
2 thought to do it, but it was like, I don't -- I'm
3 not sure how I would do it, how I -- how I could do
4 it and be able to sit here and defend, you know,
5 exactly the process, the thought process that would
6 go into analyzing -- analyzing that.

7 But the wells -- the new wells that had
8 ESPs, if you look through those plots, generally the
9 production character of those wells was very smooth
10 and monotonic in their performance compared to the
11 gas lift wells which had a lot more noise with them.

12 So I didn't see -- again, to answer your
13 question, I didn't see a solid basis for creating a
14 "not" case.

15 Q. Did you look at the impact of ESPs in new
16 wells on wells offset to those new wells?

17 A. There isn't any way to make that
18 assessment. I don't -- I don't know how to make
19 that assessment.

20 Q. Could you calculate the costs associated
21 with installing and operating ESPs in the new wells?

22 A. Well, the cost of installing, yes. We had
23 that information. And the cost of operating, we
24 had -- we had that information.

25 Q. So -- but you did not provide in your

1 report, you did not provide the cost of the new well
2 ESPs, correct?

3 A. That is correct, for all the reasons that
4 I stated.

5 Q. And did you calculate the cost of the new
6 well installations during your -- during the course
7 of your work?

8 A. No, I did -- I just did not make an effort
9 on those wells.

10 Q. If there's 21 of them and we use the gross
11 capex figure of \$453,000 per install, that gets us,
12 you know, just rough cut it, a gross cost of about
13 \$9.5 million, right?

14 MS. GRAGERT: Objection.

15 A. Okay.

16 THE REPORTER: I'm sorry. What was the
17 answer?

18 MR. BRODEUR: He said "okay."

19 THE REPORTER: Okay.

20 Q. Is it true that when a well is frac hit --
21 just take a step off of the ESPs just for one
22 second. When the well is frac hit, the production
23 can drop to minimal or even zero, correct?

24 A. That is correct.

25 Q. And then is it true that sometimes a

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1 A. For the improved production, yes.

2 Q. Okay. And then so that's 36 frac-hit
3 wells, 45 improved production wells. And as we've
4 discussed, there's no analysis on the 21 new well
5 installations, correct?

6 A. Correct.

7 Q. Okay. And the results that are shown in
8 this -- this little bulleted summary, that's based
9 on -- the costs in that are based on the AFEs? Is
10 that correct?

11 A. That is correct. It's based on the AFEs.

12 Q. Are you aware of testimony in this case
13 that -- or any evidence in this case that Alta Mesa
14 understated certain costs in some of their AFEs?

15 MS. GRAGERT: Objection.

16 A. I'm not aware. I'm not aware of that.

17 Q. Do you know whether the AFEs would include
18 the operating costs of the ESPs, including
19 electricity?

20 A. No, the AFEs would not. That would have
21 been in the ARIES economics case.

22 Q. And did you -- did you -- so when you say
23 you based it on the AFE, did you take that number of
24 the AFE and then did you add the cost of electricity
25 on top of that?

1 A. No. So what happened is the cost to
2 install is a capital cost. Okay? That's an
3 up-front capital cost. The cost to operate is an
4 operating cost that's -- that's different.

5 What we did, because Alta Mesa did not
6 provide significant detail on well-by-well-by-well
7 operating costs, we used the ARIES economics
8 database was -- that -- and the way they were set up
9 at the end of 2017. And what they had in there was
10 a average cost to operate a well. Okay? And so
11 what we did was we assumed that that operating cost
12 would be in force or in effect had the well remained
13 on gas lift.

14 When -- for the case where -- for the part
15 of the case that assumed the ESP install, we doubled
16 that cost. And we felt like that was actually
17 probably really conservative, on the high side, to
18 double the -- to just take that cost and double it.
19 It should have been more like 50 percent, but we
20 felt like that was a reasonable thing to do.

21 So to understand the way we ran the
22 economics, if we had a well that was on improved
23 production, we saw how it was trending before the
24 ESP was installed; we forecasted that production to
25 get a base case. We had those -- we had those

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1 Q. Okay. If you could go to "Install" --
2 "Install Reason" and sort the set. Sort it either
3 way. Okay? And then if you would delete all of the
4 rows that have "Frac Hit" as the reason. So I have
5 those on top and it's like Row 4 through 40 -- no, 4
6 through 39.

7 A. Okay.

8 Q. Delete those rows. Okay? And then you'll
9 see that the sums at the bottom automatically
10 update. You see that?

11 A. Yes, I do.

12 Q. So -- and if we go to the -- so is what
13 we're seeing now the economic impact of the
14 so-called improved production ESPs?

15 A. Yes.

16 Q. Okay. And there the -- the base case,
17 using these AFEs, gets you to a positive result of
18 \$836,000? Do you see that?

19 A. I do see that.

20 Q. And the base case using Alta Mesa's
21 internal number of 453,000, that actually gives you
22 a negative result, negative 640,000.

23 Do you see that?

24 A. I do see that.

25 Q. Okay. So go back to the big picture,

1 102 -- 102 wells with ESP installs. You have the
2 4 -- 21 of them are new wells. You have no economic
3 analysis on those, right?

4 A. Correct.

5 Q. Okay. And we have 45 wells that are
6 so-called improved production, correct?

7 A. Correct.

8 Q. And depending on whether we use the AFEs
9 or the capex sensitivity case, the economic impact
10 on that, of those installs, is less than a million
11 dollars either positive or negative, correct?

12 A. Correct.

13 Q. If we use the 453, it's negative -- the
14 economic impact is negative for the -- for the
15 improved production, correct?

16 A. Correct.

17 Q. So the only subset where you have a
18 positive is the -- is the frac hit and the 36 wells
19 in the frac hit, correct?

20 MS. GRAGERT: Objection.

21 A. Well, can you restate that? It's only
22 positive on the 453 case or positive overall?

23 Q. If we use the 453 case, the only positive
24 you have is a frac hit, correct?

25 A. That's correct.

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1 And what you see is in the vast majority,
2 vast, vast majority, gas lift was the preferred
3 option for their wells at, you know, at the onset
4 when they began -- when they began producing. And
5 then depending on the life, they would switch to
6 other types of lift.

7 And then the ESP program, you see the 49
8 ESPs that I list in the table. Those were the 49
9 ESPs that remained in the wells. I have some charts
10 that show that. I'm sure you've seen them. But
11 those are the ones that were still in operation at
12 the end of the available data.

13 MS. GRAGERT: So we're at seven hours.
14 Let's try to wrap it up.

15 MR. BRODEUR: All right. Let's go off the
16 record. I'll just check my notes, and then I think
17 I can pass the mic.

18 MS. GRAGERT: Okay.

19 THE VIDEOGRAPHER: We are off the record.
20 The time is 5:58 p.m.

21 (Recess from 5:58 to 6:07)

22 THE VIDEOGRAPHER: We are back on the
23 record. The time is 6:07 p.m.

24 BY MR. BRODEUR:

25 Q. Mr. Fetkovich, you had testified earlier

1 that for operating expenses for the ESPs, you simply
2 doubled the expenses, operating expenses for gas
3 lift? Is that correct?

4 A. That's what we did because it was the best
5 information. Well, no, that's not correct. We had
6 a base case. They were using a value that was in
7 the case when it was on gas lift. ESP would be more
8 expensive to operate. So what we did was we just
9 doubled that. We doubled that monthly expense. And
10 again, we thought that was -- we thought that was
11 conservative in a high case, but we thought let's
12 run it and see what it looks like.

13 Q. Okay. And about how much per month per --
14 per well was the -- was that number for the gas
15 lift?

16 A. If I remember right, and so I'm going to
17 just qualify that because I haven't looked at that
18 in awhile, I believe it was \$7,500 a month for gas
19 lift and then 15,000 a month for ESP. Those numbers
20 could be different, but whatever they were, they
21 would have been -- they would have been double. And
22 I would just have to -- I would have to look at that
23 again.

24 Q. Okay. So if we say about -- so the
25 incremental difference between gas lift and ESP then

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